

# ARIZONA DEPARTMENT OF REVENUE

## ANNOUNCEMENT

---

### Tax Shelter Voluntary Compliance Initiative

---

**Purpose:** This Announcement alerts taxpayers, accountants, lawyers, and financial professionals of an Arizona Department of Revenue (DOR) Voluntary Compliance Initiative for participants in abusive tax shelters.

---

**Effective Date:** February 14, 2005

---

**Background:** In 2002, the United States Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs initiated an investigation into the development, marketing, and implementation of abusive tax shelters by professional organizations such as accounting firms, banks, investment advisors, and law firms. During the investigation, the Subcommittee issued numerous subpoenas and document requests, and the Subcommittee staff reviewed hundreds of thousands of pages of documents and conducted numerous interviews with representatives of professional organizations. The evidence reviewed by the Subcommittee establishes that the development and sale of potentially abusive and illegal tax shelters has become a lucrative business for professional organizations. The evidence also shows that some professional firms are spending substantial resources to design, market, and implement hundreds of complex tax shelters, some of which are illegal and improperly deny federal and state governments billions of dollars in tax revenues.

In light of this evidence, the Internal Revenue Service (IRS) and many state revenue departments have launched an aggressive campaign to shut down the use of abusive tax shelters where the shelters are designed, marketed, and undertaken solely to create tax benefits unintended by the tax laws. Congress has also introduced proposed legislation to severely punish promoters and participants in abusive tax shelters.

**IRS Settlement Initiative:** Over the past five years, the IRS has begun publishing notices identifying certain generic tax shelters as "potentially abusive" and warning taxpayers that the use of such "listed transactions" may lead to an audit and assessment of back taxes, interest, and penalties. "Potentially abusive" tax shelters are those that come within the scope of "listed transactions."

---

**DOR Tax Shelter Voluntary Compliance Initiative:** DOR will be administering an Voluntary Compliance Initiative until May 13, 2005, for all taxpayers that have participated in **any** "potentially abusive" tax shelter designated by the IRS as a "listed transaction." For purposes of this Announcement, a "listed transaction" is a transaction that is the same as, or substantially similar to, one identified by the IRS under I.R.C. §6011 and the Treasury Regulations thereunder, whether or not (a) the IRS had identified the transaction as a "listed transaction" at the time the taxpayer entered into the transaction, or (b) the transaction is (or was) required to be disclosed by the taxpayer as a "listed transaction" according to the Treasury Regulations (including the temporary regulations) under I.R.C. §6011.

### **Terms of the Voluntary Compliance Initiative:**

- 1) Taxpayers must concede 100 percent of the loss, deduction or any other gain mitigation strategy used to shelter income from federal income tax.
- 2) Cost and fees associated with the establishment of an abusive tax shelter may be deducted to the extent they are allowed by the IRS.
- 3) In exchange for coming forward, DOR will not impose penalties.
- 4) Closing Agreements are also available. For details, please call Tamara Harris at (602) 716-6450 or Barbara Rivera at (602) 716-7404.

---

### **Required Procedures:**

**Participation Election.** Taxpayers participating in this Voluntary Compliance must notify DOR of their election by sending **Form AZ-VCI**, *Election to Participate in the Arizona Tax Shelter Voluntary Compliance*, on or before **April 22, 2005** to:

Department of Revenue  
Tax Shelter Unit  
Audit Division  
PO Box 52153  
Phoenix AZ 85072-2153

Taxpayers must attach the Federal original return and relevant schedules, a Federal amended return, the Arizona original return and the Arizona amended return. Taxpayers must also provide proof of cost for establishing the tax shelter to the extent allowed by IRS. Taxpayers will have until **May 13, 2005** to submit payment of tax and interest.

Taxpayers that are currently under a federal audit are encouraged to participate to avoid penalties and stop the accrual of interest. Taxpayers that are currently under an Arizona audit may also participate. Please contact Tamara Harris (602) 716-6450 or Barbara Rivera (602) 716-7404

**Please remember, under Arizona Revised Statutes, if a taxpayer's taxable income as reported to the IRS is changed or corrected, the taxpayer is required to notify the Department of the changes or corrections within 90 days of the IRS final determination. If the taxpayer fails to notify DOR timely, DOR has 4 years from the date of the final determination to adjust Arizona taxable income to reflect the federal changes.**

---

**For Further Information:**

Call DOR Tax Shelter Unit during business hours:

Monday through Friday

Phoenix 602-716-6450

Toll free from area codes 520 & 928

1-800-352-4090

Hearing Impaired - TDD User:

Phoenix 602-542-4021

Toll free from area codes 520 & 928

1-800-397-0256

---

**Forms:** Forms are available anytime on the Internet on the DOR Web site [www.azdor.gov](http://www.azdor.gov) or call the Tax Shelter Unit at the above number.

---